

4 MAR 1975

MEMORANDUM FOR: Executive Officer, OL

SUBJECT : Analysis of Direct Funding Option as it
Impacts on Materiel Management Procedures

REFERENCE : PPA/PRA Study Working Group

1. The contents of this paper are confined to an analysis of the direct funding option as it impacts on the supply management procedures currently in effect or anticipated to be brought on line under the Materiel Resources System (MRS).

2. The conversion of the Agency's supply system from a partially automated to a fully automated mode will expose many unknowns to be resolved in developing procedural applications. While we are well into Phase I of this change in system methodology, its complete implementation will take several years. Procedural design for the recording of supply actions must provide for information retrieval which will permit effective materiel management. It is, therefore, necessary to recognize that today's basic system design will be subject to constant up-date during the total implementation time frame. Accordingly, all participants must accept the condition that application of a direct funding concept to a newly designed, automated and only partially implemented MRS will be fraught with frustrations.

3. Our systems analysis is concerned primarily with the necessary elements of data input to the Inventory Control System (ICS) which will produce the information required to manage our materiel resources and provide sufficient data to appropriately control financial resources. Our current property control systems rely on the following automated programmed capabilities on line or anticipated within 90 days.

- a. Retrieval of stock action history and status.
- b. Significant transaction history.
- c. Programed error detection.
- d. Programed issue action.

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Enhancements to the system can provide whatever interface necessary to be compatible with the materiel management system in effect at the time.

4. Under the current PPA/PRA method of funding materiel procurement and issue, the using element has direct responsibility for the entire budget process. Those using elements having materiel management responsibility along with funding responsibility find our current PPA/PRA system inhibiting in its application and certainly not responsive to their needs, (Office of Technical Service (OTS), Allocation 61). Under the direct funding concept, each technically or operationally controlled allocation should follow a similar budget process and have the management responsibility noted above. The single user premise (OTS and Office of Communications (OC)) would not necessarily follow even though materiel management would be vested in those elements having authority for the expenditure of funds. Since items of materiel would be budgeted for by the office exercising operational and technical control, all medical items, for example, should be funded and managed by Office of Medical Services (OMS); conversely, all items common to two or more components should be budgeted for by the office having primary interest, i.e., communications equipment utilized by OC and other components should be funded and managed by OC. A particular radio used by OC, Office of ELINT, Division D (DIVD), etc., would fall into this category. Separate allocations could be assigned to each using component similar to what we are doing now. The present five divisions of Materiel Management (OTS, OC(26), OC(other), DIVD, and Supply Division (SD)) would more than double under this concept. A further responsibility will stem from a division of budget responsibility for those items carried in stock and those requirements which must be satisfied through direct procurement methods. Non-stocked items will require fund authorization by the user, while stocked materiel will be provided by the item manager without cost to the user.

The procedural implementation of a highly structured budgeting process should recognize that each property category identified as distinctive, either by operational application or end use, requires a single manager. This manager would be responsible for budgeting for funds required to meet total Agency materiel requirements to be supplied from stock. Even the more sophisticated equipments, if used by more than one component, should require the designation of a single manager. The delineation of stock and non-stocked items, and the attendant separation of funding responsibility noted above, would apply to each such division of responsibility.

Recognizing that a pure direct funding concept may, at least initially, be required to yield somewhat in order to achieve system practicality, we have developed a potential separation of the materiel categories which should be recognized; the cognizant office

which should exercise budget and property management responsibilities; and those categories which feasibly could be grouped under centralized Office of Logistics (OL) control.

<u>Materiel Group</u>	<u>Office of Primary Interest</u>	<u>Centralized OL Management</u>
Communications		
Clandestine	OC	No
Staff	OC	No
Crypto	OC	No
General	OC	Yes
Special	DIVD	No
		No 25X1
Audio/Visual	OTS	No
Ordnance		
Contingency		Yes 25X1
Other		Yes
Security Equipment	Office of Security (OS)	Yes
Medical Materiel	OMS	Yes
Paramilitary		Yes 25X1
Duplicating Equipment and Microfiche	Information Systems Analysis Staff (ISAS)	Yes
General	OL	Yes

5. The computer based materiel management system (ICS) will experience little change if we convert from our present Financial Property Accountability (FPA) system to some other form of financial property control. We do not anticipate any change in Financial Resources System (FRS) requirements if PRA controls are eliminated. The budget process will be an added function and workload for each separate management component, under a partially centralized budgetary control used in lieu of PRA controls. This again emphasizes

the point that stock budgeting will be the responsibility of materiel group managers while budgeting for other acquisitions (directs) will be accomplished by the users.

We have made an in-depth comparison of SD stock funding responsibilities under the present FPA system and those considered to apply to the direct funding concept.

While we currently analyze materiel requirements and develop procurement plans accordingly, these actions are concurrent with the expenditure year in the budget cycle and have no association with budget and out years in the cycle. A budget procedure such as that employed by OC would be necessary especially when non-expendable equipment and common items supporting new stock equipment buys of other components are concerned. The OC employs the following procedure in conjunction with budgeting for clandestine communications equipment (Allocation 26). Upon receipt of the budget call, OC requires each DDO component to provide a list of requirements and includes the dollar amount in their budget submission. Both OC and DDO defend these requirements in budget hearings. It then becomes readily discernable that at a minimum there would be three identifiable budget processes:

- a. Single user, single budget, and highly restrictive technical materiel. (OTS-Allocation 61)
- b. Multiple user, single budget, and highly restrictive technical materiel. (OC-Allocation 26)
- c. Multiple user, single budget, and generalized materiel. (OL)

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The stock versus direct procedure will require the user to acquire a definitive knowledge of what is stock and what is not since only those non-stocked items need be included in his budget. Such a procedure will require the user to definitize his budget and eliminate any uncertainty as to what will be furnished by the "Manager" without cost and what he must pay for. On the other side of the coin, the flexibility of introducing new items into stock and purging slow or non-moving items from it will be restricted to budgetary limits and the time frames of those limits. Admittedly, this may not create a serious problem with small, inexpensive, common items; but it is believed that, in areas of more consequential materiel, a presently insurmountable communications gap between the manager and the user must be closed. Split materiel budgets will not enhance a progression toward zero base budgeting; as a matter of fact, it would appear to have a deleterious effect. The replacement of "hard copy" catalogs by microfiche will work an additional hardship on all levels of budget contribution until microfiche and readers are more

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widely distributed, a costly exercise with much yet to be done. Another area of impact on our current materiel management system will be the funding of initial stocks of new items. Under certain circumstances, new items later become common and funded through a common manager. Budget restrictions will inhibit this procedure.

6. A review of all currently generated hard copy reports, together with those information requirements satisfied by terminal query, revealed the following statistics:

a. Hard Copy Printouts (number of reports)

(1) Multiple users (includes OL)	19
(2) Logistics only	15
(3) Others	<u>14</u>
	48

b. Terminal Query (Hard copy on request)

(1) Multiple users (includes OL)	14
(2) Logistics only	5
(3) Others	10
(4) Logistics-inactive	<u>12</u>
	41

Data elements required to maintain the above computer based information system total nearly 75 at the present time. These data can generally be categorized as follows:

- a. Control data (Management)
- b. User data (Requisitioner)
- c. Action data (Requirement)
- d. Internal data (System)

Implementation of any financial based management system will not negate the need for this information. As a matter of fact, financial controls envisioned by the FRS may well increase the input requirements of ICS.

7. All transactions affecting the property records and the general ledger accounts are presently introduced into the automated system through the use of a Transaction Analysis Code (TAC).


There are 39 TAC's utilized with the ICS as it interfaces with the current PPA system. Conversion to a modified PPA/PRA or Direct Funding procedure would have little or no effect on the present system since the majority of transaction coded data is PPA oriented. For example, insofar as property management is concerned, many transaction coded issues could be consolidated using a single code under either modified PPA/PRA or Direct Funding if it were not for input requirements in the maintenance of finance general ledgers.

8. In final analysis, the impact on supply management procedures in a conversion to modified PPA/PRA or Direct Funding would be minimal. Each materiel group manager would of necessity have to accept a larger role in the entire process since he would fall heir to the budget responsibility Agency-wide for the stock portion of his commodity group. The SD would continue to provide common services in a format permitting each separate Direct Funding management component to interface with the automated system as required.


Deputy Chief, Supply Division, OL

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